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FEDERAL COMMUNICATIONS COMMISSION
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August 9, 2001

Magalie Roman Salas
Secretary
Federal Communications Commission
The Portals
Washington, D.C. 20554

Re: Ex Parte Presentation – CC Docket Nos. 00-256, 96-45, 98-77, 98-166, *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*

Dear Ms. Roman Salas:

On August 9, 2001, representatives of the Multi-Association Group (the "Group") met with Bill Scher, Rich Lerner, Doug Slotten, Marvin Sacks, Paula Ann Cech, Ted Burmeister, Eric Einhorn, and Geoff Waldau of the Common Carrier Bureau to discuss access charge issues associated with the Group's proposed plan for regulating non-price cap incumbent LECs. That plan is the subject of the above-captioned proceeding. Marie Guillory, Margot Humphrey, John Rose, Ed Kania, and the undersigned attended on behalf of the Group. The attached sheets were distributed at the meeting and summarize the points covered by the Group's representatives at the meeting. Also discussed were filings of the Group and other parties already in the record in this proceeding.

Eight copies of this letter and the attachment are enclosed for the use of the Secretary, and a copy of this letter and attachment will be provided to each of the Commission attendees.

If you have any questions on this matter, do not hesitate to call me.

Very truly yours,

William F. Maher, Jr.

William F. Maher, Jr.

Attachment
Enclosures
cc: Commission attendees listed above

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List A B C D E

THE MAG PLAN AND ACCESS REFORM
August 9, 2001
Representatives of
Multi-Association Group
CC Docket Nos. 00-256, 96-45, 98-77, 98-166

The representatives of the Multi-Association Group (the "Group") present initial views on potential changes to access charge rules for non-price cap incumbent local exchange carriers ("LECs"). The Group representatives are in the process of discussing these initial views with the members of their respective associations and commit to notify the Commission of any changes in them.

Since the Group filed its regulatory reform plan on October 20, 2000, there have been several intervening events that have changed the regulatory conditions that affect non-price cap LECs and their customers. These events include the Commission's report and order of May 23, 2001, regarding the Rural Task Force/Joint Board recommendations on universal service (the "*RTF Order*"), the Fifth Circuit's decision on explicit universal service support in *Comsat Corp. v. FCC*, 250 F.3d 931 (5th Cir. 2001), and the Tenth Circuit's remand of the Commission's policies on universal service for non-rural carriers in *Qwest Corp. v. FCC*, no. 99-9546 (10th Cir. July 31, 2001). These ongoing, diverse events emphasize the need for the Commission to adopt a comprehensive set of regulatory reforms for non-price cap LECs and their customers.

In addition, on July 25, 2000, AT&T, GCI, and Western Wireless (the "parties") proposed a variety of changes to the access charge rules for non-price cap LECs. Although these parties style their proposals as a "Rural Consumer Choice Plan," they omit a crucial aspect of access charge reform: effective implementation of sections 254(b)(3) and (g) of the Communications Act. As the MAG plan proposes, the Commission should achieve the rural-urban comparability mandated by section 254 by requiring that interexchange carriers ("IXCs") (i) pass through to end users the savings that IXCs realize from lower access charges (ii) not impose monthly minimum charges for basic service on long distance customers, and (iii) offer the same optional calling plans to rural and urban customers alike. Without such requirements, the economic benefits from access charge reform would inure only to IXC shareholders, not to rural end users. These steps are consistent with the Tenth Circuit's directive in *Qwest Corp. v. FCC* for the Commission to clarify its implementation of rural-urban rate comparability for non-rural carriers.

Several of the access charge changes proposed by AT&T, GCI, and Western Wireless should not be adopted. While these parties' proposals for residential and single line business SLCs echo those of the MAG plan, the Commission should not adopt their proposal to flash-cut the multi-line business SLC to $9.20 per line. As the MAG Group explained in its reply comments, the Multi-line business SLC for non-price cap LECs is currently $6.00 per line. To flash-cut a SLC increase of $3.20 per line would impose severe rate shock on the multi-line business customers of non-price cap LECs. The MAG plan's proposal of a two-year transition for this SLC increase is designed to balance understandable customer concerns about rate shock with the need to improve recovery of common line costs.

Although the Fifth Circuit's *Comsat* decision requires the Commission to make explicit the implicit universal service support that currently is recovered through access charges, the Commission should not accept parties' unfounded assertions regarding the extent of such support. In particular, the Commission should not view all common line costs in excess of those recovered by SLCs as implicit support to be excised from access charges. Compared to price cap LECs, many non-price cap LECs have high common line costs that may not be recovered fully through SLCs. A carrier common line charge may be necessary for full recovery of these costs.

AT&T, GCI, and Western Wireless propose several changes to the access charge rules that they call "catch-up" reforms. Some of these proposed changes are reasonable, such as the use of a proxy of 30% of local switching costs for the reallocation of local switching line ports to common line. However, at least two of these changes do not address the conditions faced by non-price cap LECs and should be avoided.

First, the costs associated with the residual Transport Interconnection Charge ("TIC") should not be reallocated to the common line category for non-price cap LECs. As non-price cap LECs demonstrated in the record in CC Docket No. 98-77 several years ago, there is little economic basis for treating the TIC as part of common line costs, since the TIC substantially reflects the high costs incurred by non-price cap LECs in providing interexchange transport services in less densely populated areas. The TIC is banded in the NECA access tariffs; such banding is the best means currently available of reflecting the different cost characteristics of the non-price cap LECs.

Second, the Commission should not reallocate general support facilities ("GSF") costs to the "other billing and collection" category, as it has for the price cap LECs. When the Commission performed this reallocation for the price cap LECs, it reasoned that these carriers were using their regulated general-purpose computers for billing and collection activities that should be reflected through a reallocation. As the Commission has recognized, those LECs that acquire billing and collection service from a non-affiliated third party or a non-regulated affiliate already record these expenses in account 6623, a portion of which is allocated to billing and collection. *See Access Charge Reform; Transport Rate Structure and Pricing*, 12 FCC Rcd 22430 (1997) n. 10. Because many non-price cap LECs are in this situation, the GSF allocation method for price cap LECs should not be applied to non-price cap LECs.

Nor should the Commission create a "High Cost Fund III – Local Switching" to provide explicit "universal service" support for local switching access charges above $.0025 per minute, as suggested by AT&T, GCI, and Western Wireless. There is no economic basis for so limiting local switching charges. Indeed, the only basis for this proposal seems to be as a means of bringing non-price cap LECs' composite access charges to a level of 0.95 cents per minute. While it is perhaps understandable that these parties would wish to minimize the access charges that they pay, it would be completely arbitrary and burdensome to all universal service contributors to devise a new explicit support mechanism merely to meet that one-sided goal. Compared to price cap LECs, which have switches that can realize significant scale economies in serving heavily populated urban areas, the local switching costs of many non-price cap LECs do not reflect such economies. Moreover, an explicit universal service mechanism, local switching support, already applies to most non-price cap LECs. If a new High Cost Fund III – Local Switching were to be created, which it should not, it should be subject to the disaggregation and targeting rules adopted in the Commission's *RTF Order*.

Although AT&T, GCI, and Western Wireless argue broadly that USF support should not be optional in eligible areas, the Commission should adopt a more competitively neutral policy. Non-price cap LECs outside the NECA pooling system may have cost characteristics, or may be subject to other circumstances, for which support is not warranted. Out-of-pool LECs that do not receive such support should have increased pricing flexibility as described in the MAG plan.

Incentive regulation is an important aspect of comprehensive regulatory reform for non-price cap LECs. As the Group has already explained, incentive regulation that functions within a pooling system can help maintain the administrative and efficiency advantages of pooling while providing incentives for efficient infrastructure investment. The Group representatives plan to address the July 25, 2001, position of AT&T, GCI, and Western Wireless on incentive regulation in a later *ex parte* filing.

The Group representatives thank the Commission for its attention on these important matters for non-price cap LECs.